Raad van State

12 April 2016

Considerable policy effort is required for 2017

To get the 2017 budget of the Netherlands to comply with the European budget rules, a considerable policy effort is needed in the coming months. According to the projections of the CPB Netherlands Bureau for Economic Policy Analysis (CPB) the structural balance for the years 2016 and 2017 currently doesn't comply with the European fiscal rules. For 2017 the same applies in respect of the development of government expenditure. The government does state, however, that it will stay within the margins of the European fiscal agreements by adhering to the regular national budgetary framework.

This is shown in the Spring 2016 Budget Supervision Report published by the Advisory Division of the Council of State today (12 April 2016). This report contains an assessment of the annual Stability Programme submitted by the government to the European Commission by 1 May. The Advisory Division is assigned as the body that maintains independent supervision in the Netherlands on compliance with the fiscal rules agreed upon in Europe. In order to perform this task effectively, the Advisory Division makes its work correspond to key moments in the budget cycle. So it publishes a report twice a year, the Spring Report in April and the September Report around the 'State opening of Parliament' (Prinsjesdag).

Structural government balance does not meet the European budget rules

The Dutch economy is expected to grow steadily in 2016 and 2017; unemployment is falling gradually. The actual budget deficit drops to 1.2% of GDP (gross domestic product) in 2017, but the structural deficit will rise in 2016. In both 2016 and 2017 the structural deficit exceeds the European medium-term budgetary objective of 0.5% of GDP. Based on the projections in the 2016 Central Economic Plan, the Advisory Division concludes that the Dutch budget for the structural government balance does not comply with the European fiscal rules. That equally applies for 2017 in respect of the European expenditure benchmark.

Regular national budgetary framework

In the Stability Programme the government fully commits to the European budgetary rules. Based on CPB projections, that would imply the government would have to reduce spending in 2017 by € 2.7 billion and increase taxes by € 1.2 billion in 2017. These amounts could still be adjusted based on current data. By applying the regular national budgetary framework, the government is confident the budget will stay within the budgetary agreements. According to the government, it remains fully committed to the regular national budgetary framework. Since the government provides no insight in the Stability Programme about how to accomplish this in a concrete manner, the Advisory Division cannot, however, express any opinion yet. The information on the past period in the Stability Programme suggests that a considerable policy effort is still needed in the time to come.

Many (international) uncertainties

The current forecasts are surrounded by a relatively significant number of (international) uncertainties. Moreover, according to the CPB, risks are mainly downwards. In addition, Dutch public finances are relatively sensitive to cyclical shocks. By taking adequate measures now to comply with the European fiscal rules, there will be greater (budgetary) scope in the future for considering new societal challenges on the one hand and the creation of desirable room to manoeuvre in more difficult years on the other. The uncertainties underline the importance of having sufficient room to manoeuvre in the budgetary policy, according to the Advisory Division.

Read the complete text of the 2016 Spring Report on Budgetary Monitoring here.